Item 6. *Selected Financial Data*

The following selected consolidated financial data should be read in conjunction with the consolidated financial statements and related notes and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" included in our Annual Report on Form 10-K. The assets, liabilities and results of operations of FirstGuard and University Health Plans have been classified as discontinued operations for all periods presented. The data for the years ended December 31, 2008, 2007 and 2006 and as of December 31, 2008 and 2007 are derived from consolidated financial statements included elsewhere in this filing. The data for the years ended December 31, 2005 and 2004 and as of December 31, 2006, 2005 and 2004 are derived from consolidated financial statements not included in this filing.

	Year Ended December 31,				
	2008	2007	2006	2005	2004
	(In thousands, except share data)				
Consolidated Statements of Operations:					
Revenues:					
Premium	$ 3,199,360	$ 2,611,953	$ 1,707,439	$ 1,095,308	$ 851,794
Premium tax	90,202	76,567	35,848	6,079	4,911
Service	74,953	80,508	79,159	13,456	8,532
Total revenues	3,364,515	2,769,028	1,822,446	1,114,843	865,237
Expenses:					
Medical costs	2,640,335	2,190,898	1,436,371	897,077	692,348
Cost of services	56,920	61,348	60,287	5,608	7,771
General and administrative expenses	444,733	384,970	267,712	162,432	111,924
Premium tax expense	90,966	76,567	35,848	6,079	4,911
Total operating expenses	3,232,954	2,713,783	1,800,218	1,071,196	816,954
Earnings from operations	131,561	55,245	22,228	43,647	48,283
Other income (expense):					
Investment and other income	21,728	24,452	15,511	8,417	6,066
Interest expense	(16,673)	(15,626)	(10,574)	(3,985)	(680)
Earnings from continuing operations before income taxes	136,616	64,071	27,165	48,079	53,669
Income tax expense	52,435	23,031	9,565	17,242	19,835
Net earnings from continuing operations	84,181	41,040	17,600	30,837	33,834
Discontinued operations, net of income tax (benefit) expense of $(281), $(31,563), $12,412, $12,982, and $6,140, respectively	(684)	32,362	(61,229)	24,795	10,478
Net earnings (loss)	$ 83,497	$ 73,402	$ (43,629)	$ 55,632	$ 44,312
Net earnings (loss) per common share:					
Basic:					
Continuing operations	$ 1.95	$ 0.95	$ 0.41	$ 0.73	$ 0.83
Discontinued operations	(0.02)	0.74	(1.42)	0.58	0.26
Basic earnings (loss) per common share	$ 1.93	$ 1.69	$ (1.01)	$ 1.31	$ 1.09
Diluted:					
Continuing operations	$ 1.90	$ 0.92	$ 0.39	$ 0.69	$ 0.78
Discontinued operations	(0.02)	0.72	(1.37)	0.55	0.24
Diluted earnings (loss) per common share	$ 1.88	$ 1.64	$ (0.98)	$ 1.24	$ 1.02
Weighted average number of common shares outstanding:					
Basic	43,275,187	43,539,950	43,160,860	42,312,522	40,820,909
Diluted	44,398,955	44,823,082	44,613,622	45,027,633	43,616,445

	December 31,				
	2008	2007	2006	2005	2004
	(In thousands)				

Consolidated Balance Sheet Data:

Cash and cash equivalents	$ 370,999	$ 267,305	$ 237,514	$ 112,269	$ 55,850
Investments and restricted deposits	451,058	369,545	174,431	163,489	186,777
Total assets	1,451,152	1,121,824	894,980	668,030	527,934
Medical claims liability	373,037	313,364	232,496	123,102	121,790
Long-term debt	264,637	206,406	174,646	92,448	46,973
Total stockholders' equity	501,272	415,047	326,423	352,048	271,312

CENTENE CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

	December 31, 2008	December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents of continuing operations	$ 370,999	$ 267,305
Cash and cash equivalents of discontinued operations	8,100	1,279
Total cash and cash equivalents	379,099	268,584
Premium and related receivables, net of allowance for uncollectible accounts of $595 and $258, respectively	92,531	79,492
Short-term investments, at fair value (amortized cost $108,469 and $46,193, respectively)	109,393	46,074
Other current assets	75,333	39,382
Current assets of discontinued operations other than cash	9,987	12,807
Total current assets	666,343	446,339
Long-term investments, at fair value (amortized cost $329,330 and $314,681, respectively)	332,411	317,041
Restricted deposits, at fair value (amortized cost $9,124 and $6,383, respectively)	9,254	6,430
Property, software and equipment, net	175,858	135,883
Goodwill	163,380	138,862
Intangible assets, net	17,575	11,337
Other long-term assets	59,083	36,067
Long-term assets of discontinued operations	27,248	29,865
Total assets	$ 1,451,152	$ 1,121,824
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Medical claims liability	$ 373,037	$ 313,364
Accounts payable and accrued expenses	219,566	102,944
Unearned revenue	17,107	44,016
Current portion of long-term debt	255	971
Current liabilities of discontinued operations	31,013	25,505
Total current liabilities	640,978	486,800
Long-term debt	264,637	206,406
Other long-term liabilities	43,539	13,300
Long-term liabilities of discontinued operations	726	271
Total liabilities	949,880	706,777
Commitments and contingencies		
Stockholders' equity:		
Common stock, $.001 par value; authorized 100,000,000 shares; issued and outstanding 42,987,764 and 43,667,837 shares, respectively	43	44
Additional paid-in capital	222,841	221,693
Accumulated other comprehensive income:		
Unrealized gain on investments, net of tax	3,152	1,571
Retained earnings	275,236	191,739
Total stockholders' equity	501,272	415,047
Total liabilities and stockholders' equity	$ 1,451,152	$ 1,121,824

The accompanying notes to the consolidated financial statements are an integral part of these statements.

CENTENE CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except share data)

	Year Ended December 31,		
	2008	2007	2006
Revenues:			
Premium	$ 3,199,360	$ 2,611,953	$ 1,707,439
Premium tax	90,202	76,567	35,848
Service	74,953	80,508	79,159
Total revenues	3,364,515	2,769,028	1,822,446
Expenses:			
Medical costs	2,640,335	2,190,898	1,436,371
Cost of services	56,920	61,348	60,287
General and administrative expenses	444,733	384,970	267,712
Premium tax	90,966	76,567	35,848
Total operating expenses	3,232,954	2,713,783	1,800,218
Earnings from operations	131,561	55,245	22,228
Other income (expense):			
Investment and other income	21,728	24,452	15,511
Interest expense	(16,673)	(15,626)	(10,574)
Earnings from continuing operations before income tax expense	136,616	64,071	27,165
Income tax expense	52,435	23,031	9,565
Net earnings from continuing operations	84,181	41,040	17,600
Discontinued operations, net of income tax (benefit) expense of $(281), $(31,563), and $12,412	(684)	32,362	(61,229)
Net earnings (loss)	$ 83,497	$ 73,402	$ (43,629)
Net earnings (loss) per share:			
Basic:			
Continuing operations	$ 1.95	$ 0.95	$ 0.41
Discontinued operations	(0.02)	0.74	(1.42)
Basic earnings (loss) per common share	$ 1.93	$ 1.69	$ (1.01)
Diluted:			
Continuing operations	$ 1.90	$ 0.92	$ 0.39
Discontinued operations	(0.02)	0.72	(1.37)
Diluted earnings (loss) per common share	$ 1.88	$ 1.64	$ (0.98)
Weighted average number of shares outstanding:			
Basic	43,275,187	43,539,950	43,160,860
Diluted	44,398,955	44,823,082	44,613,622

The accompanying notes to the consolidated financial statements are an integral part of these statements

CENTENE CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands, except share data)

	Common Stock					
	$.001 Par Value Shares	Amt	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Retained Earnings	Total
Balance, December 31, 2005	42,988,230	$ 43	$ 191,840	$ (1,754)	$ 161,919	$ 352,048
Net loss	—	—	—	—	(43,629)	(43,629)
Change in unrealized investment losses, net of $306 tax	—	—	—	503	—	503
Comprehensive loss						(43,126)
Common stock issued for stock options and employee stock purchase plan	783,823	1	7,497	—	—	7,498
Common stock repurchases	(402,135)	—	(7,944)	—	—	(7,944)
Stock compensation expense	—	—	14,904	—	—	14,904
Excess tax benefits from stock compensation	—	—	3,043	—	—	3,043
Balance, December 31, 2006	43,369,918	$ 44	$ 209,340	$ (1,251)	$ 118,290	$ 326,423
Net earnings	—	—	—	—	73,402	73,402
Change in unrealized investment losses, net of $1,625 tax	—	—	—	2,822	—	2,822
Comprehensive earnings						76,224
Common stock issued for stock options and employee stock purchase plan	765,076	—	6,113	—	—	6,113
Common stock repurchases	(467,157)	—	(9,541)	—	—	(9,541)
Stock compensation expense	—	—	15,781	—	—	15,781
Adjustment for adoption of FASB Interpretation No. 48	—	—	—	—	47	47
Balance, December 31, 2007	43,667,837	$ 44	$ 221,693	$ 1,571	$ 191,739	$ 415,047
Net earnings	—	—	—	—	83,497	83,497
Change in unrealized investment gains, net of $882 tax	—	—	—	1,581	—	1,581
Comprehensive earnings						85,078
Common stock issued for stock options and employee stock purchase plan	538,785	—	6,229	—	—	6,229
Common stock repurchases	(1,218,858)	(1)	(23,509)	—	—	(23,510)
Stock compensation expense	—	—	15,328	—	—	15,328
Excess tax benefits from stock compensation	—	—	3,100	—	—	3,100
Balance, December 31, 2008	42,987,764	$ 43	$ 222,841	$ 3,152	$ 275,236	$ 501,272

The accompanying notes to the consolidated financial statements are an integral part of these statements.

CENTENE CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Year Ended December 31, 2008	2007	2006
Cash flows from operating activities:			
Net earnings (loss)	$ 83,497	$ 73,402	$ (43,629)
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities—			
Depreciation and amortization	35,414	27,807	20,600
Stock compensation expense	15,328	15,781	14,904
Loss on sale of investments, net	4,988	106	59
Gain on sale of FirstGuard Missouri	—	(7,472)	—
Impairment loss	2,546	7,207	88,268
Deferred income taxes	1,286	(10,223)	(6,692)
Changes in assets and liabilities—			
Premium and related receivables	(1,548)	1,663	(39,765)
Other current assets	(4,244)	(6,253)	5,352
Other assets	(2,700)	(348)	91
Medical claims liability	46,337	56,287	108,003
Unearned revenue	(36,447)	10,085	20,035
Accounts payable and accrued expenses	75,112	31,234	28,136
Other operating activities	2,409	2,964	(330)
Net cash provided by operating activities	221,978	202,240	195,032
Cash flows from investing activities:			
Capital expenditures	(65,156)	(53,937)	(50,318)
Purchase of investments	(549,652)	(606,366)	(319,322)
Sales and maturities of investments	546,264	456,738	286,155
Proceeds from asset sales	—	14,102	—
Investments in acquisitions, net of cash acquired and investment in equity method investee	(85,377)	(36,001)	(66,772)
Net cash used in investing activities	(153,921)	(225,464)	(150,257)
Cash flows from financing activities:			
Proceeds from exercise of stock options	5,354	5,464	6,953
Proceeds from borrowings	236,005	212,000	94,359
Payment of long-term debt and notes payable	(178,491)	(181,981)	(17,355)
Excess tax benefits from stock compensation	3,100	—	3,043
Common stock repurchases	(23,510)	(9,541)	(7,833)
Debt issue costs	—	(5,181)	(253)
Net cash provided by financing activities	42,458	20,761	78,914
Net increase (decrease) in cash and cash equivalents	110,515	(2,463)	123,689
Cash and cash equivalents, beginning of period	268,584	271,047	147,358
Cash and cash equivalents, end of period	$ 379,099	$ 268,584	$ 271,047
Supplemental disclosures of cash flow information:			
Interest paid	$ 15,312	$ 11,945	$ 10,680
Income taxes paid	$ 36,801	$ 7,348	$ 16,418
Supplemental disclosure of non-cash investing and financing activities:			
Property acquired under capital lease obligation	$ —	$ 1,736	$ 366

The accompanying notes to the consolidated financial statements are an integral part of these statements.

CENTENE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands, except share data)

1. Organization and Operations

Centene Corporation, or Centene or the Company, is a multi-line healthcare enterprise operating in two segments: Medicaid Managed Care and Specialty Services. Centene's Medicaid Managed Care segment provides Medicaid and Medicaid-related health plan coverage to individuals through government subsidized programs, including Medicaid, the State Children's Health Insurance Program, or SCHIP, Foster Care, Medicare Special Needs Plans and the Supplemental Security Income Program, also known as the Aged, Blind or Disabled program, or ABD. The Company's Specialty Services segment provides specialty services, including behavioral health, individual health insurance, life and health management, long-term care programs, managed vision, nurse triage, and pharmacy benefits management, to state programs, healthcare organizations, employer groups, and other commercial organizations, as well as to the Company's own subsidiaries. The Company's Specialty Services segment also provides a full range of healthcare solutions for the rising number of uninsured Americans.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Centene Corporation and all majority owned subsidiaries, majority-owned subsidiaries over which the Company exercises control and entities in which the Company has a controlling financial interest. All material intercompany balances and transactions have been eliminated. As discussed below in Note 3, *Discontinued Operations: University Health Plan and FirstGuard Health Plans,* the assets, liabilities and results of operations of FirstGuard Kansas, FirstGuard Missouri and University Health Plans are classified as discontinued operations for all periods presented.

The Company uses the equity method to account for its investment in entities that it does not control, but where it has the ability to exercise significant influence over operating and financial policies. Consolidated net earnings include the share of the net earnings (losses) of those entities. The difference between consolidation and the equity method impacts certain of the financial ratios because of the presentation of the detailed line items reported in the consolidated financial statements for consolidation entities, compared to a two-line presentation of equity method investments and net earnings.

The Company uses the cost method to account for its investment in entities that it does not control and for which it does not have the ability to exercise significant influence over operating and financial policies. These investments are recorded at the lower of their cost or fair value.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States, or GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Future events and their effects cannot be predicted with certainty; accordingly, the accounting estimates require the exercise of judgment. The accounting estimates used in the preparation of the consolidated financial statements will change as new events occur, as more experience is acquired, as additional information is obtained and as the operating environment changes. The Company evaluates and updates its assumptions and estimates on an ongoing basis and may employ outside experts to assist in our evaluation, as considered necessary. Actual results could differ from those estimates.

Cash and Cash Equivalents

Investments with original maturities of three months or less are considered to be cash equivalents. Cash equivalents consist of commercial paper, money market funds, repurchase agreements and bank certificates of deposit and savings accounts.

The Company maintains amounts on deposit with various financial institutions, which may at times exceed federally insured limits. However, management periodically evaluates the credit-worthiness of those institutions, and the Company has not experienced any losses on such deposits.

Investments

Short-term investments include securities with maturities between three months and one year. Long-term investments include securities with maturities greater than one year.

Short-term and long-term investments are generally classified as available for sale and are carried at fair value. Certain equity investments are recorded using the cost method. Unrealized gains and losses on investments available for sale are excluded from earnings and reported as a separate component of stockholders' equity, net of income tax effects. Premiums and discounts are amortized or accreted over the life of the related security using the effective interest method. The Company monitors the difference between the cost and fair value of investments. Investments that experience a decline in value that is judged to be other than temporary are written down to fair value and a realized loss is recorded in investment and other income. To calculate realized gains and losses on the sale of investments, the Company uses the specific amortized cost of each investment sold. Realized gains and losses are recorded in investment and other income.

Restricted Deposits

Restricted deposits consist of investments required by various state statutes to be deposited or pledged to state agencies. These investments are classified as long-term, regardless of the contractual maturity date, due to the nature of the states' requirements. The Company is required to annually adjust the amount of the deposit pledged to certain states.

Fair Value Measurements

In the normal course of business, the Company invests in various financial assets and incur various financial liabilities. Fair values are disclosed for all financial instruments, whether or not such values are recognized in the Consolidated Balance Sheets. Management obtains quoted market prices for these disclosures. The carrying amounts reported in the Consolidated Balance Sheets for cash and cash equivalents, premium and related receivables, unearned revenue, accounts payable and accrued expenses, and certain other current liabilities approximate fair value because of their short-term nature.

The following methods and assumptions were used to estimate the fair value of each financial instrument:

•€€Short-term investments, long-term investments, and restricted deposits, available-for-sale, at fair value: The carrying amount is stated at fair value, based on quoted market prices, where available. For securities not actively traded, fair values were estimated using values obtained from independent pricing services or quoted market prices of comparable instruments.

•€€Senior unsecured notes: Estimated based on third-party quoted market prices for the same or similar issues.

•€€Variable rate debt: The carrying amount of our floating rate debt approximates fair value because the interest rates adjust based on market rate adjustments.

Additional information regarding fair value measurements is included in Note 7, *Fair Value Measurements*.

Property, Software and Equipment

Property, software and equipment are stated at cost less accumulated depreciation. Capitalized software includes certain costs incurred in the development of internal-use software, including external direct costs of materials and services and payroll costs of employees devoted to specific software development. Depreciation is calculated principally by the straight-line method over estimated useful lives. Leasehold improvements are depreciated using the straight-line method over the shorter of the expected useful life or the remaining term of the lease. Property, software and equipment are depreciated over the following periods:

Fixed Asset	Depreciation Period
Buildings	40 years
Computer hardware and software	2 – 7 years
Furniture and equipment	3 – 20 years
Leasehold improvements	1– 10 years

The carrying amounts of all long-lived assets are evaluated periodically to determine if adjustment to the depreciation and amortization period or to the unamortized balance is warranted. Such evaluation is based principally on the expected utilization of the long-lived assets.

The Company retains fully depreciated assets in property and accumulated depreciation accounts until it removes them from service. In the case of sale, retirement, or disposal, the asset cost and related accumulated depreciation balance is removed from the respective account, and the resulting net amount, less any proceeds, is included as a component of earnings from operations in the consolidated statements of operations.

The Company tests for impairment of long-lived assets, including intangible assets, whenever events or changes in circumstances indicate that the carrying value of an asset or asset group (hereinafter referred to as “asset group”) may not be recoverable by comparing the sum of the estimated undiscounted future cash flows expected to result from use of the asset group and its eventual disposition to the carrying value. Such factors include, but are not limited to, significant changes in membership, state funding, medical contracts and provider networks and contracts. If the sum of the estimated undiscounted future cash flows is less than the carrying value, an impairment determination is required. The amount of impairment is calculated by subtracting the fair value of the asset group from the carrying value of the asset group. An impairment charge, if any, is recognized within earnings from operations.

Goodwill and Intangible Assets

Intangible assets represent assets acquired in purchase transactions and consist primarily of customer relationships, purchased contract rights, provider contracts, trade names and goodwill. Intangible assets are amortized using the straight-line method over the following periods:

Intangible Asset	Amortization Period
Purchased contract rights	5 – 10 years
Provider contracts	5 – 10 years
Customer relationships	5 – 15 years
Trade names	20 years

The Company tests goodwill for impairment using a fair value approach. The Company is required to test for impairment at least annually, absent some triggering event that would require an impairment assessment. Absent any impairment indicators, the Company performs its goodwill impairment testing during the fourth quarter of each year.

The Company recognizes an impairment charge for any amount by which the carrying amount of goodwill exceeds its implied fair value. The Company presents a goodwill impairment charge as a separate line item within earnings from operations in the consolidated statements of operations, unless the goodwill impairment is associated with a discontinued operation. In that case, the Company includes the goodwill impairment charge, on a net-of-tax basis, within the results of discontinued operations.

The Company uses discounted cash flows to establish the fair value as of the testing dates. The discounted cash flow approach includes many assumptions related to future growth rates, discount factors, future tax rates, etc. Changes in economic and operating conditions impacting these assumptions could result in goodwill impairment in future periods. When available and as appropriate, the Company uses comparative market multiples to corroborate discounted cash flow results.

Medical Claims Liability

Medical claims liability includes claims reported but not yet paid, or inventory, estimates for claims incurred but not reported, or IBNR, and estimates for the costs necessary to process unpaid claims at the end of each period. The Company estimates its medical claims liability using actuarial methods that are commonly used by health insurance actuaries and meet Actuarial Standards of Practice. These actuarial methods consider factors such as historical data for payment patterns, cost trends, product mix, seasonality, utilization of healthcare services and other relevant factors.

Actuarial Standards of Practice generally require that the medical claims liability estimates be adequate to cover obligations under moderately adverse conditions. Moderately adverse conditions are situations in which the actual claims are expected to be higher than the otherwise estimated value of such claims at the time of estimate. In many situations, the claims amounts ultimately settled will be different than the estimate that satisfies the Actuarial Standards of Practice. The Company includes in its IBNR an estimate for medical claims liability under moderately adverse conditions which represents the risk of adverse deviation of the estimates in its actuarial method of reserving.

The Company uses its judgment to determine the assumptions to be used in the calculation of the required estimates. The assumptions it considers when estimating IBNR include, without limitation, claims receipt and payment experience (and variations in that experience), changes in membership, provider billing practices, health care service utilization trends, cost trends, product mix, seasonality, prior authorization of medical services, benefit changes, known outbreaks of disease or increased incidence of illness such as influenza, provider contract changes, changes to Medicaid fee schedules, and the incidence of high dollar or catastrophic claims.

The Company's development of the medical claims liability estimate is a continuous process which it monitors and refines on a monthly basis as additional claims receipts and payment information becomes available. As more complete claim information becomes available, the Company adjust the amount of the estimates, and include the changes in estimates in medical costs in the period in which the changes are identified. In every reporting period, the operating results include the effects of more completely developed medical claims liability estimates associated with previously reported periods. The Company consistently applies its reserving methodology from period to period. As additional information becomes known, it adjusts the actuarial model accordingly to establish medical claims liability estimates.

The Company periodically reviews actual and anticipated experience compared to the assumptions used to establish medical costs. The Company establishes premium deficiency reserves if actual and anticipated experience indicates that existing policy liabilities together with the present value of future gross premiums will not be sufficient to cover the present value of future benefits, settlement and maintenance costs.

Revenue Recognition

The Company's Medicaid Managed Care segment generates revenues primarily from premiums received from the states in which it operates health plans. The Company receives a fixed premium per member per month pursuant to its state contracts. The Company generally receives premium payments during the month it provides services and recognizes premium revenue during the period in which it is obligated to provide services to its members. In some instances, the Company's base premiums are subject to an adjustment, or risk score, based on the acuity of its membership. Generally, the risks score is determined by the State analyzing encounter submissions of processed claims data to determine the acuity of the Company's membership relative to the entire state's Medicaid membership. Some states enact premium taxes or similar assessments, collectively premium taxes, and these taxes are recorded as a separate component of both revenues and operating expenses. Some contracts allow for additional premium related to certain supplemental services provided such as maternity deliveries. Revenues are recorded based on membership and eligibility data provided by the states, which may be adjusted by the states for updates to this data. These eligibility adjustments have been immaterial in relation to total revenue recorded and are reflected in the period known.

The Company's Specialty Services segment generates revenues under contracts with state programs, individuals, healthcare organizations and other commercial organizations, as well as from the Company's own subsidiaries. Revenues are recognized when the related services are provided or as ratably earned over the covered period of service.

Premium and services revenues collected in advance are recorded as unearned revenue. For performance-based contracts the Company does not recognize revenue subject to refund until data is sufficient to measure performance. Premiums and service revenues due to the Company are recorded as premium and related receivables and are recorded net of an allowance based on historical trends and management's judgment on the collectibility of these accounts. As the Company generally receives payments during the month in which services are provided, the allowance is typically not significant in comparison to total revenues and does not have a material impact on the presentation of the financial condition or results of operations. Activity in the allowance for uncollectible accounts for the years ended December 31, is summarized below:

	2008	2007	2006
Allowances, beginning of year	$ 258	$ 155	$ 343
Amounts charged to expense	642	226	512
Write-offs of uncollectible receivables	(305)	(123)	(700)
Allowances, end of year	$ 595	$ 258	$ 155

Significant Customers

Centene receives the majority of its revenues under contracts or subcontracts with state Medicaid managed care programs. The current contracts, which expire on various dates between March 31, 2009 and December 31, 2011, are expected to be renewed. States whose aggregate annual contract value exceeded 10% of annual revenues and the respective percentage of the Company's total revenues for the years ended December 31, are as follows:

2008		2007		2006	
Georgia	23%	Georgia	25%	Georgia	19%
Ohio	16%	Indiana	12%	Indiana	19%
Texas	33%	Texas	26%	Texas	21%
		Wisconsin	11%	Wisconsin	20%
		Ohio	17%		

Reinsurance

Centene's subsidiaries report reinsurance premiums as medical costs, while related reinsurance recoveries are reported as deductions from medical costs. The Company limits its risk of catastrophic losses by maintaining high deductible reinsurance coverage.

Other Income (Expense)

Other income (expense) consists principally of investment income, interest expense and equity method earnings from investments. Investment income is derived from the Company's cash, cash equivalents, restricted deposits and investments. Interest expense relates to borrowings under the senior notes, credit facilities, interest on capital leases and credit facility fees.

Income Taxes

Deferred tax assets and liabilities are recorded for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date of the tax rate change.

Valuation allowances are provided when it is considered more likely than not that deferred tax assets will not be realized. In determining if a deductible temporary difference or net operating loss can be realized, the Company considers future reversals of existing taxable temporary differences, future taxable income, taxable income in prior carryback periods and tax planning strategies.

Stock Based Compensation

The Company adopted Financial Accounting Standards Board, or FASB, Statement of Financial Accounting Standards No. 123 (revised 2004), *Share Based Payment* , or SFAS 123R, effective January 1, 2006, using the modified-prospective transition method. Under this method, compensation cost is recognized for awards granted and for awards modified, repurchased or cancelled in the period after adoption. Compensation cost is also recognized for the unvested portion of awards granted prior to adoption. Prior year financial statements are not restated. The fair value of the Company's employee share options and similar instruments are estimated using the Black-Scholes option-pricing model. That cost is recognized over the period during which an employee is required to provide service in exchange for the award. Excess tax benefits related to stock compensation are presented as a cash inflow from financing activities.

Additional information regarding the stock option plans is included in Note 15, *Stock Incentive Plans*.

Litigation Reserve

The Company accrues for loss contingencies associated with outstanding litigation, claims and assessments for which it has determined it is probable that a loss contingency exists and the amount of loss can be reasonably estimated. The Company expenses professional fees associated with litigation claims and assessments as incurred.

Reclassifications

Certain amounts in the consolidated financial statements have been reclassified to conform to the 2008 presentation. These reclassifications, primarily related to the reclassification of UHP to discontinued operations, have no effect on net earnings or stockholders' equity as previously reported.

Recent Accounting Pronouncements

In December 2007, the FASB issued FASB Statement No.141 (revised 2007), *Business Combinations*. The purpose of issuing the statement was to replace current guidance in FASB Statement No.141, *Business Combinations,* to better represent the economic value of a business combination transaction. The changes to be effected with FASB Statement No. 141R from the current guidance include, but are not limited to: (1) acquisition costs will be recognized separately from the acquisition; (2) known contractual contingencies at the time of the acquisition will be considered part of the liabilities acquired and and measured at their fair value; all other contingencies will be part of the liabilities acquired and measured at their fair value only if it is more likely than not that they meet the definition of a liability; (3) contingent consideration based on the outcome of future events will be recognized and measured at the time of the acquisition; (4) business combinations achieved in stages (step acquisitions) will need to recognize the identifiable assets and liabilities, as well as noncontrolling interests, in the acquiree, at the full amounts of their fair values; and (5) a bargain purchase (defined as a business combination in which the total acquisition-date fair value of the identifiable net assets acquired exceeds the fair value of the consideration transferred plus any noncontrolling interest in the acquiree) will require that excess to be recognized as a gain attributable to the acquirer. FASB Statement No. 141R will be effective for any business combinations that occur after January 1, 2009.

In December 2007, the FASB issued FASB Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements* , which was issued to improve the relevance, comparability, and transparency of financial information provided to investors by requiring all entities to report noncontrolling (minority) interests in subsidiaries in the same way, that is, as equity in the consolidated financial statements. Moreover, FASB Statement No. 160 eliminates the diversity that currently exists in accounting for transactions between an entity and noncontrolling interests by requiring they be treated as equity transactions. FASB Statement No. 160 will be effective January 1, 2009. The adoption of FASB Statement No. 160 will not have a material impact on the Company's financial statements and disclosures.

The Company has determined that all other recently issued accounting pronouncements will not have a material impact on its consolidated financial position, results of operations and cash flows, or do not apply to its operations.

3. Discontinued Operations: University Health Plan and FirstGuard Health Plans

University Health Plan

In November 2008, the Company announced its intention to sell certain assets of its New Jersey health plan, University Health Plans, Inc, or UHP. Accordingly, the results and operations of UHP are presented as discontinued operations for all periods presented. The assets, liabilities and results of operations of UHP were classified as discontinued operations for all periods presented beginning in December 2008. UHP was previously reported in the Medicaid Managed Care segment. The Company expects the sale to be completed within 12 months. Additional information regarding the sale of UHP is included in Note 18, *Contingencies* .

In 2008, as a result of the plan to sell certain assets of UHP, the Company conducted an impairment analysis of the assets of UHP. The impairment analysis resulted in an impairment charge for fixed assets of $2,546. During the year ended December 31, 2008, the Company incurred exit costs consisting primarily of lease termination fees and employee severance. The change in exit cost liability for UHP is summarized as follows:

	2008
Balance, January 1,	$ —
Incurred	1,110
Paid	—
Balance, December 31,	$ 1,110

FirstGuard Health Plans

In 2006, FirstGuard Health Plan Kansas, Inc., or FirstGuard Kansas, a wholly owned subsidiary, received notification that its Medicaid contract scheduled to terminate December 31, 2006 would not be renewed. In 2006, the Company also evaluated its strategic alternatives for its Missouri subsidiary, FirstGuard Health Plan, Inc., or FirstGuard Missouri, and decided to divest the business. The assets, liabilities and results of operations of FirstGuard Kansas and FirstGuard Missouri were classified as discontinued operations for all periods presented beginning in December 2007, as substantially all liabilities have been paid as of that date. FirstGuard was previously reported in the Medicaid Managed Care segment.

In 2006, as a result of the notification of the Kansas contract non-renewal, the Company conducted an impairment analysis of the identifiable intangible assets and goodwill of the FirstGuard reporting unit, which encompasses both the FirstGuard Kansas and FirstGuard Missouri health plans. The fair value of the FirstGuard reporting unit was determined using discounted expected cash flows and estimated market value. The impairment analysis resulted in a goodwill impairment of $81,098. The Company also recorded impairment charges for identifiable intangible assets of $5,993, and fixed assets of $1,177. The goodwill portion of the impairment was not deductible for tax purposes.

The sale of the operating assets of FirstGuard Missouri was completed effective February 1, 2007 and the Company received a final contingent payment in the second quarter of 2007, resulting in a total gain on the sale of $7,472 in 2007. Goodwill associated with FirstGuard written off as part of the transaction was $5,995.

In 2007, the Company abandoned the stock of FirstGuard Kansas and FirstGuard Missouri to an unrelated entity. As a result of that abandonment, the Company recognized expense of $2,298 for the write-off of the remaining assets in that entity. The Company also recognized a $34,856 tax benefit for the tax deduction associated with the basis of that stock.

The Company has incurred FirstGuard exit costs consisting primarily of lease termination fees and employee severance costs. The Company also contributed $3,000 of the sale proceeds received in the second quarter of 2007 to its charitable foundation and recorded the contribution as General and Administrative expense. The change in exit cost liability for FirstGuard is summarized as follows:

	2008	2007	2006
Balance, January 1,	$ 125	$ 3,027	$ —
Incurred	76	2,531	6,202
Paid	(201)	(5,433)	(3,175)
Balance, December 31,	$ —	$ 125	$ 3,027

Financial Summary

Operating results for the discontinued operations are as follows:

	Year Ended December 31,		
	2008	2007	2006
Revenues	$ 150,638	$ 156,952	$ 456,574

Earnings (loss) before income taxes	$	(965)	$	799	$	(48,817)
Net earnings (loss)	$	(684)	$	32,362	$	(61,229)

Assets and liabilities of the discontinued operations are as follows:

	December 31,	
	2008	**2007**
Current assets	$ 18,0878	$ 14,0866
Long term investments and restricted deposits	22,0088	20,8711
Goodwill	2,1688	2,1688
Other intangible assets, net	1,5522	1,8688
Other assets	1,5200	4,9588
Assets of discontinued operations	$ 45,3355	$ 43,9511

	December 31,	
	2008	**2007**
Medical claims liability	$ 25,2900	$ 23,2288
Accounts payable and accrued expenses	5,7233	2,2777
Other liabilities	7266	2711
Liabilities of discontinued operations	$ 31,7399	$ 25,7766

4. Restructuring

In the fourth quarter of 2007, the Company abandoned its previously planned redevelopment project in Clayton, Missouri, related to a corporate office expansion. As a result, the Company conducted an impairment analysis of the related real estate and capitalized construction costs and recorded an impairment charge of $7,207. The impairment charges were recorded as General and Administrative expense under the Medicaid Managed Care segment. At December 31, 2008, the remaining liability for these charges was $850.

Also in the fourth quarter of 2007, the Company completed an organizational realignment, resulting in the elimination of approximately 35 positions. Accordingly, the Company recorded $2,185 in severance costs. This expense was recorded as General and Administrative expense under the Medicaid Managed Care segment. At December 31, 2007, the Company did not have remaining liability for these costs.

The Company did not recognize any restructuring charges during the year ended December 31, 2008.

5. Acquisitions

2008 Acquisitions

☒··*Celtic Insurance Company.* On July 1, 2008, the Company acquired Celtic Insurance Company, or Celtic, a health insurance carrier focused on the individual health insurance market. The Company paid approximately $82,100 in cash and related transaction costs, net of unregulated cash acquired. In conjunction with the closing of the acquisition, Celtic paid to the Company an extraordinary dividend of $31,411 in July 2008. The results of operations for Celtic are included in the Specialty Services segment of the consolidated financial statements since July 1, 2008.

In accordance with FASB Statement No. 141, during 2008, the Company allocated total consideration paid to the assets acquired and liabilities assumed based on its initial estimates of fair value using methodologies and assumptions that it believed were reasonable. The preliminary purchase price allocation resulted in estimated identifiable intangible assets, associated deferred tax liabilities and goodwill of $8,600, $3,000 and $22,600, respectively. The identifiable intangible assets have estimated useful lives ranging from seven to 15 years. The acquired goodwill is not deductible for income tax purposes.

To estimate fair values, the Company considered a number of factors, including the application of multiples to discounted cash flow estimates. There is considerable management judgment with respect to cash flow estimates and appropriate multiples used in determining fair value. Certain amounts are subject to change as remaining information on the fair values is received and valuation analysis is finalized. Specifically, the Company continues to evaluate the valuation and useful lives of acquired tangible and intangible assets, medical claims liability, and the income tax implications triggered by the acquisition. The final fair values may differ materially from the preliminary estimates described above. The Company expects to complete its final allocation of the purchase price before June 30, 2009. Pro forma disclosures related to the acquisition have been excluded as immaterial.

2007 Acquisitions

☒··*Access Health Solution, LLC.* In July 2007, the Company acquired a 49% minority ownership interest in Access Health Solutions, LLC, or Access, a Medicaid managed care entity in Florida. Under the terms of the transaction, the Company has an option to acquire the remaining interest in Access at a future date. The Company accounts for its investment in Access using the equity method of accounting. In February 2009, the members of Access began conversion to the Company's Florida subsidiary, Sunshine State Health Plan, on an at-risk basis.

☒··*Other 2007 Acquisitions*. The Company acquired 100% of the following entities: PhyTrust of South Carolina, LLC, effective April 20, 2007; Physician's Choice, LLC, effective October 2007; and Work Life Innovations, effective November 30, 2007. The Company paid a total of $11,300 in cash and related transaction costs for these acquisitions. PhyTrust of South Carolina and Physician's Choice, LLC, both with Medicaid members in South Carolina, are included in the Medicaid Managed Care segment. Work Life Innovations, a health and wellness consulting company, is included in the Specialty Services segment. For these acquisitions, goodwill of $8,343 and $2,739 was allocated to the Medicaid Managed Care segment and the Specialty Services segment, respectively, all of which is deductible for income tax purposes. Pro forma disclosures related to these acquisitions have been excluded as immaterial.

2006 Acquisitions

☒··*US Script, Inc.* Effective January 1, 2006, the Company acquired 100% of US Script, Inc., a pharmacy benefits manager. The Company has paid or accrued $46,573 in cash and related transaction costs. In accordance with the terms of the agreement, the Company will pay up to an additional $4,000 when US Script, Inc. achieves certain earnings targets over the next two years. The results of operations for US Script, Inc. are included in the Specialty Services segment and the consolidated financial statements since January 1, 2006.

The purchase price allocation resulted in identifiable intangible assets of $7,100 and associated deferred tax liabilities of $2,523 and goodwill of $39,975. The identifiable intangible assets have an estimated useful life of seven to 20 years. The acquired goodwill is not deductible for income tax purposes. Pro forma disclosures related to the acquisition have been excluded as immaterial.

☒··*Other 2006 Acquisitions.* The Company acquired the assets of Nurse Response, Inc., effective April 1, 2006, Cardium Health Services Corporation, effective May 9, 2006, MediPlan Corporation, effective June 1, 2006, and OptiCare Managed Vision, Inc., effective July 1, 2006. The Company paid a total of $30,783 in cash and related transaction costs for these acquisitions. The results of operations for these acquisitions are included in the consolidated financial statements since the respective effective dates. Nurse Response, Inc., a provider of after hours nurse triage services, Cardium Health Services Corporation, a chronic health management provider, and OptiCare Managed Vision, Inc., a managed vision provider, are included in the Specialty Services segment. MediPlan Corporation, with Medicaid membership in Ohio, is included in the Medicaid Managed Care segment. For these acquisitions, goodwill of $14,756 and $7,150 was allocated to the Specialty Services segment and Medicaid Managed Care segment, respectively, of which $5,593 is deductible for income tax purposes. Pro forma disclosures related to these acquisitions have been excluded as immaterial.

6. Short-term and Long-term Investments and Restricted Deposits

Short-term and long-term investments and restricted deposits available for sale by investment type at December 31, 2008 consist of the following:

	December 31, 2008			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 4,054	$ 130	$ —	$ 4,184
Corporate securities	47,733	74	(1,154)	46,653
State and municipal securities	360,638	5,964	(11)	366,591
Life insurance contracts	14,327	—	—	14,327
Money market funds	12,988	—	—	12,988
Equity securities	7,183	17	(885)	6,315
Total	$ 446,923	$ 6,185	$ (2,050)	$ 451,058

Short-term and long-term investments and restricted deposits available for sale by investment type at December 31, 2007 consist of the following:

	December 31, 2007			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 8,171	$ 74	$ (10)	$ 8,235
Corporate securities	33,032	14	(265)	32,781
State and municipal securities	305,433	2,336	(129)	307,640
Life insurance contracts	13,924	—	—	13,924
Equity securities	6,697	354	(86)	6,965
Total	$ 367,257	$ 2,778	$ (490)	$ 369,545

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The Company monitors investments for other than temporary impairment. Certain investments have experienced a decline in fair value due to changes in credit quality and market interest rates. Based on management's judgment of the credit quality of the Company's investments and ability to hold these investments to recovery (which may be maturity), no other than temporary impairment has been recorded. Investments in a gross unrealized loss position at December 31, 2008 are as follows:

		Less Than 12 Months		12 Months or More		Total	
	Amortized Cost	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**
Equity	$ 3,543	$ (885)	$ 2,658	$ —	$ —	$ (885)	$ 2,658
Corporate	24,124	(1,071)	20,898	(83)	2,072	(1,154)	22,970
Government	314	—	314	—	—	—	314
Municipal	3,910	(9)	3,798	(2)	101	(11)	3,899
Total	$ 31,891	$ (1,965)	$ 27,668	$ (85)	$ 2,173	$ (2,050)	$ 29,841

Investments in a gross unrealized loss position at December 31, 2007 are as follows:

		Less Than 12 Months		12 Months or More		Total	
	Amortized Cost	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**
Equity	$ 1,778	$ (86)	$ 1,692	$ —	$ —	$ (86)	$ 1,692
Corporate	28,474	(7)	907	(258)	27,302	(265)	28,209
Government	3,735	(3)	1,632	(7)	2,093	(10)	3,725
Municipal	29,942	(4)	5,517	(125)	24,296	(129)	29,813
Total	$ 63,929	$ (100)	$ 9,748	$ (390)	$ 53,691	$ (490)	$ 63,439

The contractual maturities of short-term and long-term investments and restricted deposits as of December 31, 2008, are as follows:

	Investments		Restricted Deposits	
	Amortized Cost	**Fair Value**	**Amortized Cost**	**Fair Value**
One year or less	$ 108,469	$ 109,393	$ 6,038	$ 6,044
One year through five years	181,958	185,867	3,086	3,210
Five years through ten years	56,936	56,188	—	—
Greater than ten years	90,436	90,356	—	—
Total	$ 437,799	$ 441,804	$ 9,124	$ 9,254

The contractual maturities of short-term and long-term investments and restricted deposits as of December 31, 2007, are as follows:

	Investments		Restricted Deposits	
	Amortized Cost	**Fair Value**	**Amortized Cost**	**Fair Value**
One year or less	$ 46,193	$ 46,073	$ 4,844	$ 4,849
One year through five years	204,311	206,296	1,032	1,052
Five years through ten years	29,524	29,900	507	529
Greater than ten years	80,846	80,846	—	—
Total	$ 360,874	$ 363,115	$ 6,383	$ 6,430

Actual maturities may differ from contractual maturities due to call or prepayment options. Equity securities and life insurance contracts are included in the five years through ten years category.

The Company recorded realized gains and losses on investments for the years ended December 31 as follows:

	2008	**2007**	**2006**
Gross realized gains	$ 1,364	$ 325	$ 9
Gross realized losses	(5,654)	(372)	(37)
Net realized losses	$ (4,290)	$ (47)	$ (28)

Investment and other income in the third quarter of 2008 included a loss on investments of $4,457. The loss was primarily due to investments in the Reserve Primary money market fund (Reserve Fund) whose Net Asset Value fell below $1.00 per share due to its holdings of securities by Lehman Brothers Holdings, Inc. The loss represents less than 1% of Centene's cash and investment portfolio as of December 31, 2008. The Company expects to recover 95% of its Reserve Fund investments. Money market funds are generally recorded in Cash and cash equivalents in the Company's balance sheet, however, the investment in the Reserve Fund is recorded in Short-term investments due to the restrictions placed on redemptions imposed by the fund. As of December 31, 2008, the Company has received most of its investment in the Reserve Fund and the Company's short term investment balance includes $12,988 for the Reserve Fund.

The fair value of a cost method investment is not estimated if there are no identified events or changes in circumstances that may have a significant adverse effect on the fair value of the investment. The aggregate carrying amount of all cost-method investments were $15,975 and $1,774 as of December 31, 2008 and 2007, respectively.

Additional information regarding investments is included in Note 7, *Fair Value Measurements*.

7. Fair Value Measurements

The Company adopted FASB Statement No. 157, *Fair Value Measurements* for financial assets and liabilities on January 1, 2008. FASB Statement No. 157 defines fair value and establishes a framework for measuring fair value in accordance with existing GAAP, and expands disclosure about fair value measurements. Assets and liabilities recorded at fair value in the consolidated balance sheets are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Level inputs, as defined by FASB Statement No.157, are as follows:

Level Input:	**Input Definition:**
Level I	Inputs are unadjusted, quoted prices for identical assets or liabilities in active markets at the measurement date.
Level II	Inputs other than quoted prices included in Level I that are observable for the asset or liability through corroboration with market data at the measurement date.
Level III	Unobservable inputs that reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date.

The following table summarizes fair value measurements by level at December 31, 2008 for assets and liabilities measured at fair value on a recurring basis:

	Level I	Level II	Level III	Total
Investments available for sale:				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 4,184	$ —	$ —	$ 4,184
Corporate securities	31,382	—	—	31,382
State and municipal securities	366,591	—	—	366,591
Equity securities	3,328	—	—	3,328
Total assets	$ 405,485	$ —	$ —	$ 405,485
Debt	$ —	$ 226,829	$ —	$ 226,829

8. Property, Software and Equipment

Property, software and equipment consist of the following as of December 31:

	2008	2007
Computer software	$ 97,829	$ 71,350
Land	46,543	19,509
Building	32,485	36,781
Computer hardware	31,897	26,264
Furniture and office equipment	22,756	20,776
Leasehold improvements	18,542	14,628
	250,052	189,308
Less accumulated depreciation	(74,194)	(53,425)
Property, software and equipment, net	$ 175,858	$ 135,883

Depreciation expense for the years ended December 31, 2008, 2007 and 2006 was $28,453, $22,647 and $15,242, respectively.

9. Goodwill and Intangible Assets

The following table summarizes the changes in goodwill by operating segment:

	Medicaid Managed Care	Specialty Services	Total
Balance as of December 31, 2006	$ 42,804	$ 86,146	$ 128,950
Acquisitions	8,664	4,049	12,713
Other adjustments	—	(2,801)	(2,801)
Balance as of December 31, 2007	51,468	87,394	138,862
Acquisitions	80	24,438	24,518
Balance as of December 31, 2008	$ 51,548	$ 111,832	$ 163,380

Goodwill additions in 2008 and 2007 were related to the acquisitions discussed in Note 5, *Acquisitions*. Goodwill reductions in 2007 were related to the recognition of acquired net operating loss carry forward benefits.

Intangible assets at December 31, consist of the following:

			Weighted Average Life in Years	
	2008	2007	2008	2007
Purchased contract rights	$ 6,146	$ 6,191	8.4	7.7
Provider contracts	1,078	1,078	10.0	10.0
Customer relationships	14,130	7,030	7.8	8.2
Trade names	5,545	4,563	19.4	19.9
Other intangibles	270	270	5.0	5.0
Intangible assets	27,169	19,132	10.6	10.7
Less accumulated amortization:				
Purchased contract rights	(4,672)	(4,650)		
Provider contracts	(405)	(295)		
Customer relationships	(3,566)	(2,069)		
Trade names	(681)	(542)		
Other identifiable intangibles	(270)	(239)		
Total accumulated amortization	(9,594)	(7,795)		
Intangible assets, net	$ 17,575	$ 11,337		

Amortization expense was $2,480, $1,970 and $2,105 for the years ended December 31, 2008, 2007 and 2006, respectively.

Estimated total amortization expense related to intangible assets for each of the five succeeding fiscal years is as follows:

Year	Expense

2009	$	2,700
2010		2,500
2011		2,300
2012		2,200
2013		1,700

10. Income Taxes

The consolidated income tax expense consists of the following for the years ended December 31:

	2008	2007	2006
Current provision:			
Federal	$ 53,543	$ 31,170	$ 14,290
State and local	6,726	2,741	2,553
Total current provision	60,269	33,911	16,843
Deferred provision	(7,834)	(10,880)	(7,278)
Total provision for income taxes	$ 52,435	$ 23,031	$ 9,565

The reconciliation of the tax provision at the U.S. Federal Statutory Rate to the provision for income taxes is as follows:

	2008	2007	2006
Tax provision at the U.S. federal statutory rate	$ 47,816	$ 22,425	$ 9,508
State income taxes, net of federal income tax benefit	4,938	821	(603)
Tax exempt investment income	(3,727)	(2,636)	(640)
Nondeductible incentive stock option compensation	1,316	1,542	1,407
Other, net	2,092	879	(107)
Income tax expense	$ 52,435	$ 23,031	$ 9,565

The tax effects of temporary differences which give rise to deferred tax assets and liabilities are presented below for the years ended December 31:

	2008	2007
Deferred tax assets:		
Current:		
Medical claims liability and other accruals	$ 34,222	$ 12,392
Unearned premium and other deferred revenue	959	3,376
Unrealized loss on investments	—	47
Federal net operating loss carry forward	—	4,102
State net operating loss carry forward	1,033	2,981
Federal tax credits	—	188
Capital loss carryovers and impairment losses	2,111	—
Other	221	1,808
	38,546	24,894
Valuation allowance	—	—
Net current deferred tax assets	$ 38,546	$ 24,894
Non-current deferred tax assets:		
Medical claims liability and other accruals	$ 3,092	$ 593
Federal net operating loss carry forward	2,444	5,580
State net operating loss carry forward	3,029	1,950
Stock compensation	11,796	8,671
Other	1,155	1,147
	21,516	17,941
Valuation allowance	(1,541)	(1,207)
Net non-current deferred tax assets	$ 19,975	$ 16,734
Deferred tax liabilities:		
Current:		
Prepaid assets	$ 2,026	$ 1,501
Unrealized short term gains	524	—
Net current deferred tax liabilities	$ 2,550	$ 1,501
Non-current deferred tax liabilities:		
Intangible assets	$ 7,969	$ 4,234
Depreciation and amortization	26,557	15,895
Unrealized gain on investments	1,364	877
Prepaid assets	1,154	—
Other	25	—
Net non-current deferred tax liabilities	$ 37,069	$ 21,006
Net deferred tax assets	$ 18,902	$ 19,121

The Company's deferred tax assets include federal and state net operating losses, or NOLs, of which $3,751 were acquired in business combinations. Accordingly, the total and annual deduction for those NOLs is limited by tax law. The Company's federal NOLs expire between the years 2011 and 2027 and the state NOLs expire between the years 2009 and 2027. Valuation allowances are recorded for those NOLs the Company believes are more-likely-than not to expire unused. During 2008 and 2007, the Company recorded valuation allowance additions in the tax provision of $1,829 and $1,852, respectively. In 2008 and 2007, the Company recorded valuation allowance reductions of $126 and $2,317, of which the majority offset goodwill.

The Company adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, or FIN 48, on January 1, 2007. FIN 48 clarifies whether or not to recognize assets or liabilities for tax positions taken that may be challenged by a tax authority. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

Balance as of January 1, 2008	$ 817

Additions based on tax positions during the current year		3,251
Additions based on tax positions during prior		397
Settlements		(411)
Balance as of December 31, 2008	$	4,054

The December 31, 2008 balance includes $766 (net of federal tax benefit) that would decrease income tax expense, if recognized, and the remainder would reduce goodwill.

The Company recognizes interest accrued related to unrecognized tax benefits in the provision for income taxes. As of January 1, 2008, interest accrued was $223, net of federal benefit. No penalties have been accrued. As of December 31, 2008, interest accrued was $560, net of federal benefit.

The federal income tax returns for 2005 through 2008 are open tax years. The Company is currently being examined by the IRS for the 2006 and 2007 tax years. Included in their examination is the treatment of the tax deduction associated with the abandonment of the FirstGuard stock. As discussed in Note 3, *Discontinued Operations* , in 2007, the Company recognized a $34,846 tax benefit associated with the abandonment of the FirstGuard stock. The Company files in numerous state jurisdictions with varying statutes of limitation. The unrecognized state tax benefits are related to returns open from 2003 through 2008.

11. Medical Claims Liability

The change in medical claims liability is summarized as follows:

	Year Ended December 31,		
	2008	2007	2006
Balance, January 1,	$ 313,364	$ 232,496	$ 123,102
Acquisitions	15,398	—	1,788
Incurred related to:			
Current year	2,659,036	2,212,901	1,450,116
Prior years	(18,701)	(22,003)	(13,745)
Total incurred	2,640,335	2,190,898	1,436,371
Paid related to:			
Current year	2,303,473	1,902,610	1,220,872
Prior years	292,587	207,420	107,893
Total paid	2,596,060	2,110,030	1,328,765
Balance, December 31,	$ 373,037	$ 313,364	$ 232,496

Changes in estimates of incurred claims for prior years are primarily attributable to reserving under moderately adverse conditions. Changes in medical utilization and cost trends and the effect of medical management initiatives may also contribute to changes in medical claim liability estimates. While the Company has evidence that medical management initiatives are effective on a case by case basis, medical management initiatives primarily focus on events and behaviors prior to the incurrence of the medical event and generation of a claim. Accordingly, any change in behavior, leveling of care, or coordination of treatment occurs prior to claim generation and as a result, the costs prior to the medical management initiative are not known by the Company. Additionally, certain medical management initiatives are focused on member and provider education with the intent of influencing behavior to appropriately align the medical services provided with the member's acuity. In these cases, determining whether the medical management initiative changed the behavior cannot be determined. Because of the complexity of its business, the number of states in which it operates, and the volume of claims that it processes, the Company is unable to practically quantify the impact of these initiatives on its changes in estimates of IBNR.

The Company had reinsurance recoverables related to medical claims liability of $4,972 and $3,189 at December 31, 2008 and 2007, respectively, included in premium and related receivables.

12. Debt

Debt consists of the following at December 31:

	2008	2007
$175,000 senior notes	$ 175,000	$ 175,000
$300,000 revolving credit agreement	63,000	5,000
$20,500 revolving loan agreement	20,364	8,359
Capital leases	6,528	7,017
Mortgage notes payable	—	12,001
Total debt	264,892	207,377
Less current maturities	(255)	(971)
Long-term debt	$ 264,637	$ 206,406

In March 2007, the Company issued $175,000 aggregate principal amount of 7 ¼% Senior Notes due April 1, 2014, or the Notes. The Notes have been registered under the Securities Act of 1933, as amended, pursuant to a registration rights agreement with the initial purchasers. The indenture governing the Notes contains non-financial and financial covenants, including requirements of a minimum fixed charge coverage ratio. Interest is paid semi-annually in April and October.

The Company has a $300,000 five-year Revolving Credit Agreement dated September 14, 2004 with various financial institutions. Borrowings under the agreement bear interest based upon LIBOR rates, the Federal Funds Rate or the Prime Rate. There is a commitment fee on the unused portion of the agreement that ranges from 0.15% to 0.275% depending on the total debt-to-EBITDA ratio. The agreement contains non-financial and financial covenants, including requirements of minimum fixed charge coverage ratios, maximum debt-to-EBITDA ratios and minimum tangible net worth. The agreement will expire in September 2011. As of December 31, 2008, the Company had $63,000 in borrowings outstanding under the agreement and $24,100 in letters of credit outstanding, leaving availability of $212,900. The outstanding borrowings at December 31, 2008 bore interest at LIBOR plus 1.0%, or the prime rate. The weighted average interest rate of outstanding borrowings was 2.42% at December 31, 2008.

In May 2006, the Company executed a three-year $25,000 Revolving Loan Agreement. Borrowings under the agreement bear interest based upon LIBOR rates plus 1.0%. In November 2008, the Company executed an amendment to this agreement to reduce the amount available under the Revolving Loan Agreement to $20,500. Subject to the terms and conditions of the agreement, the proceeds of the Revolving Loan may only be used for the acquisition and financing of the Company's corporate headquarters and certain properties contiguous to the headquarters. The collateralized properties had a net book value of $15,316 at December 31, 2008. The outstanding borrowings at December 31, 2008 bore interest at 2.90%.

Aggregate maturities for the Company's debt are as follows:

2009	$	255
2010		20,611
2011		63,250
2012		261
2013		273
Thereafter		180,242
Total	$	264,892

The fair value of outstanding debt was approximately $226,829 and $206,065 at December 31, 2008 and 2007, respectively.

13. Stockholders' Equity

The Company has 10,000,000 authorized shares of preferred stock at $.001 par value. At December 31, 2008, there were no preferred shares outstanding.

In October 2008, the Company's board of directors extended the November 2005 stock repurchase program, authorizing the Company to repurchase up to 4,000,000 shares of common stock from time to time on the open market or through privately negotiated transactions. The repurchase program expires October 31, 2009, but the Company reserves the right to suspend or discontinue the program at any time. During the year ended December 31, 2008, the Company repurchased 1,218,858 shares at an average price of $19.29 and an aggregate cost of $23,510. During the year ended December 31, 2007, the Company repurchased 467,157 shares at an average price of $20.42 and an aggregate cost of $9,541.

14. Statutory Capital Requirements and Dividend Restrictions

Various state laws require Centene's regulated subsidiaries to maintain minimum capital levels specified by each state and restrict the amount of dividends that may be paid without prior regulatory approval. At December 31, 2008 and 2007, Centene's subsidiaries, including UHP, had aggregate statutory capital and surplus of $391,400 and $302,100, respectively, compared with the required minimum aggregate statutory capital and surplus of $241,500 and $192,300, respectively.

15. Stock Incentive Plans

The Company's stock incentive plans allow for the granting of restricted stock or restricted stock unit awards and options to purchase common stock. Both incentive stock options and nonqualified stock options can be awarded under the plans. No option will be exercisable for longer than ten years after the date of grant. The plans have 1,294,809 shares available for future awards. Compensation expense for stock options and restricted stock unit awards is recognized on a straight-line basis over the vesting period, generally three to five years for stock options and one to ten years for restricted stock or restricted stock unit awards. Certain restricted stock unit awards contain performance-based as well as service-based provisions. Certain awards provide for accelerated vesting if there is a change in control as defined in the plans. The total compensation cost that has been charged against income for the stock incentive plans was $15,328, $15,781 and $14,904 for the years ended December 31, 2008, 2007 and 2006, respectively. The total income tax benefit recognized in the income statement for stock-based compensation arrangements was $4,771, $4,536 and $4,235 for the years ended December 31, 2008, 2007 and 2006, respectively.

Option activity for the year ended December 31, 2008 is summarized below:

	Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value	Weighted Average Remaining Contractual Term
Outstanding as of December 31, 2007	4,340,701	$ 19.60		
Granted	242,000	18.50		
Exercised	(400,129)	11.80		
Expired	(22,600)	25.93		
Forfeited	(441,600)	24.02		
Outstanding as of December 31, 2008	3,718,372	$ 19.81	$ 10,103	6.4
Exercisable as of December 31, 2008	2,556,507	$ 18.48	$ 9,451	5.6

The fair value of each option grant is estimated on the date of the grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	Year Ended December 31, 2008	2007	2006
Expected life (in years)	5.8	6.1	6.5
Risk-free interest rate	3.0%	4.1%	4.6%
Expected volatility	50.3%	47.5%	47.8%
Expected dividend yield	0%	0%	0%

For the years ended December 31, 2008 and 2007, the Company used a projected expected life for each award granted based on historical experience of employees' exercise behavior. For the year ended December 31, 2006, the expected life of each award granted was calculated using the "simplified method" in accordance with the SEC Staff Accounting Bulletin No. 107. For the years ended December 31, 2008, 2007 and 2006, expected volatility is primarily based on historical volatility levels along with the implied volatility of exchange traded options to purchase Centene common stock. The risk-free interest rates are based on the implied yield currently available on U.S. Treasury zero coupon issues with a remaining term equal to the expected life.

Other information pertaining to option activity during the years ended December 31, 2008, 2007 and 2006 is as follows:

	Year Ended December 31, 2008	2007	2006
Weighted-average fair value of options granted	$ 9.27	$ 12.02	$ 13.42
Total intrinsic value of stock options exercised	$ 3,529	$ 9,847	$ 10,495

A summary of the status of the Company's non-vested restricted stock and restricted stock unit shares as of December 31, 2008, and changes during the year ended December 31, 2008, is presented below:

	Shares	Weighted Average Grant Date Fair Value
Non-vested balance as of December 31, 2007	1,572,689	$ 24.74
Granted	500,930	17.26
Vested	(103,189)	25.23
Forfeited	(56,300)	25.55
Non-vested balance as of December 31, 2008	1,914,130	$ 22.73

The total fair value of restricted stock and restricted stock units vested during the years ended December 31, 2008, 2007 and 2006, was $1,822, $2,168 and $1,051, respectively.

As of December 31, 2008, there was $35,321 of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the plans; that cost is expected to be recognized over a weighted-average period of 2.2 years. The actual tax benefit realized for the tax deductions from stock option exercises totaled $1,127, $512, and $3,455 for the years ended December 31, 2008, 2007 and 2006, respectively.

The Company has reserved 900,000 shares of common stock for an employee stock purchase plan and the Company issued 36,682 shares, 32,563 shares, and 34,357 shares in 2008, 2007 and 2006, respectively, from the employee stock purchase plan.

16. Retirement Plan

Centene has a defined contribution plan which covers substantially all employees who are at least twenty-one years of age. Under the plan, eligible employees may contribute a percentage of their base salary, subject to certain limitations. Centene may elect to match a portion of the employee's contribution. Company expense related to matching contributions to the plan was $3,810, $2,406 and $1,847 during the years ended December 31, 2008, 2007 and 2006, respectively.

17. Commitments

Centene and its subsidiaries lease office facilities and various equipment under non-cancelable operating leases which may contain escalation provisions. The rental expense related to these leases is recorded on a straight-line basis over the lease term, including rent holidays. Tenant improvement allowances are recorded as a liability and amortized against rent expense over the term of the lease. Rent expense was $19,561, $15,108 and $10,107 for the years ended December 31, 2008, 2007 and 2006, respectively. Annual non-cancelable minimum lease payments over the next five years and thereafter are as follows:

2009	$ 20,490
2010	17,606
2011	14,957
2012	11,640
2013	8,608
Thereafter	48,494
	$ 121,795

18. Contingencies

On January 8, 2009, the Company filed a complaint in the Chancery Division of the Superior Court of New Jersey, asserting a breach of contract claim against AMERIGROUP New Jersey, or AGPNJ, and a tortuous interference with contract claim against AMERIGROUP Corporation, in connection with AGPNJ's refusal to proceed to closing under its contract to purchase certain assets of UHP's business. In December 2008, AGPNJ sent the Company a termination notice claiming that a material adverse effect had occurred under the contract and attempted to terminate the contract. The Company is contesting whether a material adverse effect occurred and correspondingly the propriety and validity of the purported termination, and is seeking to obtain specific performance of the contract and damages.

The Company is routinely subjected to legal proceedings in the normal course of business. While the ultimate resolution of such matters is uncertain, the Company does not expect the results of any of these matters discussed above individually, or in the aggregate, to have a material effect on its financial position or results of operations.

19. Earnings Per Share

The following table sets forth the calculation of basic and diluted net earnings per share for the years ended December 31:

	2008	2007	2006
Earnings:			
Earnings from continuing operations	$ 84,181	$ 41,040	$ 17,600
Discontinued operations, net of tax	(684)	32,362	(61,229)
Net earnings (loss)	$ 83,497	$ 73,402	$ (43,629)
Shares used in computing per share amounts:			
Weighted average number of common shares outstanding	43,275,187	43,539,950	43,160,860
Common stock equivalents (as determined by applying the treasury stock method)	1,123,768	1,283,132	1,452,762
Weighted average number of common shares and potential dilutive common shares outstanding	44,398,955	44,823,082	44,613,622
Net earnings (loss) per share:			
Basic:			
Continued operations	$ 1.95	$ 0.95	$ 0.41
Discontinued operations	(0.02)	0.74	(1.42)
Earnings (loss) per common share	$ 1.93	$ 1.69	$ (1.01)
Diluted:			
Continuing operations	$ 1.90	$ 0.92	$ 0.39
Discontinued operations	(0.02)	0.72	(1.37)
Earnings (loss) per common share	$ 1.88	$ 1.64	$ (0.98)

The calculation of diluted earnings per common share for 2008, 2007 and 2006 excludes the impact of 2,004,778, 3,002,030 and 4,560,036 shares, respectively, related to anti-dilutive stock options, restricted stock and restricted stock units.

20. Segment Information

Centene operates in two segments: Medicaid Managed Care and Specialty Services. The Medicaid Managed Care segment consists of Centene's health plans including all of the functions needed to operate them. The Specialty Services segment consists of Centene's specialty companies including behavioral health, individual health, life and health management, long-term care, managed vision, nurse triage, pharmacy benefits management and treatment compliance functions.

Factors used in determining the reportable business segments include the nature of operating activities, existence of separate senior management teams, and the type of information presented to the Company's chief operating decision maker to evaluate all results of operations.

Segment information as of and for the year ended December 31, 2008, follows:

	Medicaid Managed Care	Specialty Services	Eliminations	Consolidated Total
Revenue from external customers	$ 3,020,248	$ 344,267	$ —	$ 3,364,515
Revenue from internal customers	60,451	474,061	(534,512)	—

Total revenue	$ 3,080,699	$ 818,328	$ (534,512)	$ 3,364,515
Earnings from operations	$ 108,363	$ 23,198	$ —	$ 131,561
Total assets	$ 1,105,610	$ 345,542	$ —	$ 1,451,152
Stock compensation expense	$ 13,840	$ 1,346	$ —	$ 15,186
Depreciation expense	$ 25,271	$ 3,182	$ —	$ 28,453
Capital expenditures	$ 58,856	$ 4,635	$ —	$ 63,491

Segment information as of and for the year ended December 31, 2007, follows:

	Medicaid Managed Care	**Specialty Services**	**Eliminations**	**Consolidated Total**
Revenue from external customers	$ 2,523,667	$ 245,361	$ —	$ 2,769,028
Revenue from internal customers	76,637	407,563	(484,200)	—
Total revenue	$ 2,600,304	$ 652,924	$ (484,200)	$ 2,769,028
Earnings from operations	$ 35,545	$ 19,700	$ —	$ 55,245
Total assets	$ 939,012	$ 182,812	$ —	$ 1,121,824
Stock compensation expense	$ 13,820	$ 1,505	$ —	$ 15,325
Depreciation expense	$ 19,970	$ 2,677	$ —	$ 22,647
Capital expenditures	$ 49,846	$ 3,941	$ —	$ 53,787

Segment information as of and for the year ended December 31, 2006, follows:

	Medicaid Managed Care	Specialty Services	Eliminations	Consolidated Total
Revenue from external customers	$ 1,630,471	$ 191,975	$ —	$ 1,822,446
Revenue from internal customers	88,159	221,201	(309,360)	—
Total revenue	$ 1,718,630	$ 413,176	$ (309,360)	$ 1,822,446
Earnings from operations	$ 15,118	$ 7,110	$ —	$ 22,228
Total assets	$ 723,698	$ 171,282	$ —	$ 894,980
Stock compensation expense	$ 13,636	$ 919	$ —	$ 14,555
Depreciation expense	$ 12,865	$ 2,377	$ —	$ 15,242
Capital expenditures	$ 44,753	$ 3,872	$ —	$ 48,625

The Company evaluates performance and allocates resources based on earnings from operations. The accounting policies are the same as those described in Note 2, *Summary of Significant Accounting Policies* .

21. Comprehensive Earnings

Differences between net earnings and total comprehensive earnings resulted from changes in unrealized gains on investments available for sale, as follows:

	Year Ended December 31,		
	2008	2007	2006
Net earnings (loss)	$ 83,497	$ 73,402	$ (43,629)
Reclassification adjustment, net of tax	252	(242)	218
Change in unrealized gains on investments available for sale, net of tax	1,329	3,064	285
Total change	1,581	2,822	503
Total comprehensive earnings (loss)	$ 85,078	$ 76,224	$ (43,126)

22. Quarterly Selected Financial Information

(In thousands, except share data and membership data)
(Unaudited)

	For the Quarter Ended			
	March 31, 2008 (1)	June 30, 2008	September 30, 2008	December 31, 2008 (2)
Total revenues	$ 779,228	$ 823,930	$ 858,599	$ 902,758
Net earnings from continuing operations	24,933	17,883	18,099	23,266
Discontinued operations, net of tax	690	320	149	(1,843)
Net earnings	$ 25,623	$ 18,203	$ 18,248	$ 21,423
Per share data:				
Basic:				
Continued operations	$ 0.57	$ 0.41	$ 0.42	$ 0.54
Discontinued operations	0.02	0.01	-	(0.04)
Basic earnings per common share	$ 0.59	$ 0.42	$ 0.42	$ 0.50
Diluted:				
Continued operations	$ 0.56	$ 0.40	$ 0.41	$ 0.53
Discontinued operations	0.01	0.01	-	(0.04)
Diluted earnings per common share	$ 0.57	$ 0.41	$ 0.41	$ 0.49
Period end membership	1,100,300	1,152,300	1,174,800	1,184,800

(1) Includes $20.8 million pre-tax premium revenue for the Georgia premium rate increase for July 1, 2007 – December 31, 2007.

(2) Includes a $3.7 million pre-tax charge primarily for asset impairments and employee severance related to the sale of the New Jersey health plan, included in discontinued operations.

	For the Quarter Ended			
	March 31, 2007	**June 30, 2007 (1)**	**September 30, 2007**	**December 31, 2007 (2)**
Total revenues	$ 627,598	$ 691,171	$ 710,437	$ 739,822
Net earnings from continuing operations	10,482	11,171	17,756	1,631
Discontinued operations, net of tax	27,729	6,611	(1,820)	(158)
Net earnings	$ 38,211	$ 17,782	$ 15,936	$ 1,473
Per share data:				
Basic:				
Continued operations	$ 0.24	$ 0.26	$ 0.41	$ 0.04
Discontinued operations	0.64	0.15	(0.04)	(0.01)
Basic earnings per common share	$ 0.88	$ 0.41	$ 0.37	$ 0.03
Diluted:				
Continued operations	$ 0.23	$ 0.25	$ 0.40	$ 0.04
Discontinued operations	0.62	0.15	(0.04)	(0.01)
Diluted earnings per common share	$ 0.85	$ 0.40	$ 0.36	$ 0.03
Period end membership	1,044,200	1,072,400	1,079,000	1,089,300

(1) Includes a $3.0 million pre-tax cash contribution of a portion of the FirstGuard sale proceeds to the Company's charitable foundation.

(2) Includes $4.2 million pre-tax premium revenue refund to the State of Indiana and a $9.4 million pre-tax charge for impairment and restructuring.

23. Condensed Financial Information of Registrant

Centene Corporation (Parent Company Only)
Condensed Balance Sheets
(In thousands, except share data)

	December 31, 2008	December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 5,041	$ 14,291
Short-term investments, at fair value (amortized cost $1,516 and $5,202, respectively)	1,524	5,190
Other current assets	72,270	70,279
Total current assets	78,835	89,760
Long-term investments, at fair value (amortized cost $14,379 and $11,658, respectively)	13,725	11,972
Investment in subsidiaries	637,384	492,706
Other long-term assets	17,217	6,236
Total assets	$ 747,161	$ 600,674
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities	$ 7,342	$ 5,527
Long-term debt	238,000	180,000
Other long-term liabilities	547	100
Total liabilities	245,889	185,627
Stockholders' equity:		
Common stock, $.001 par value; authorized 100,000,000 shares; issued and outstanding 42,987,764 and 43,667,837 shares, respectively	43	44
Additional paid-in capital	222,841	221,693
Accumulated other comprehensive income:		
Unrealized loss on investments, net of tax	3,152	1,571
Retained earnings	275,236	191,739
Total stockholders' equity	501,272	415,047
Total liabilities and stockholders' equity	$ 747,161	$ 600,674

See notes to condensed financial information of registrant.

Centene Corporation (Parent Company Only)
Condensed Statements of Operations
(In thousands, except share data)

	Year Ended December 31, 2008	2007	2006
Expenses:			
General and administrative expenses	$ (6,153)	$ (5,513)	$ (3,709)
Other income (expense):			
Investment and other income	(324)	913	755
Interest expense	(15,395)	(13,627)	(8,993)
Loss before income taxes	(21,872)	(18,227)	(11,947)
Income tax benefit	(7,988)	(51,178)	(4,504)
Net earnings (loss) before equity in subsidiaries	(13,884)	32,951	(7,443)
Equity in earnings (loss) from subsidiaries	97,381	40,451	(36,186)
Net earnings (loss)	$ 83,497	$ 73,402	$ (43,629)
Net earnings (loss) per share:			
Basic earnings (loss) per common share	$ 1.93	$ 1.69	$ (1.01)
Diluted earnings (loss) per common share	$ 1.88	$ 1.64	$ (0.98)
Weighted average number of shares outstanding:			
Basic	43,275,187	43,539,950	43,160,860
Diluted	44,398,955	44,823,082	44,613,622

See notes to condensed financial information of registrant.

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Centene Corporation (Parent Company Only)
Condensed Statements of Cash Flows
(In thousands)

	Year Ended December 31,		
	2008	2007	2006
Cash flows from operating activities:			
Cash provided by operating activities	$ 37,487	$ 94,145	$ 31,895
Cash flows from investing activities:			
Net dividends from and capital contributions to subsidiaries	10,146	(71,813)	(43,100)
Purchase of investments	(39,261)	(84,088)	(4,521)
Sales and maturities of investments	30,779	77,086	5,841
Acquisitions, net of cash acquired	(91,345)	(38,532)	(66,772)
Proceeds from asset sales	—	14,102	—
Net cash used in investing activities	(89,681)	(103,245)	(108,552)
Cash flows from financing activities:			
Proceeds from borrowings	224,000	212,000	86,000
Payment of long-term debt and notes payable	(166,000)	(181,000)	(12,000)
Proceeds from exercise of stock options	5,354	5,464	6,953
Common stock repurchases	(23,510)	(9,541)	(7,883)
Debt issue costs	—	(5,181)	(253)
Excess tax benefits from stock compensation	3,100	—	3,043
Net cash provided by financing activities	42,944	21,742	75,860
Net increase (decrease) in cash and cash equivalents	(9,250)	12,642	(797)
Cash and cash equivalents, beginning of period	14,291	1,649	2,446
Cash and cash equivalents, end of period	$ 5,041	$ 14,291	$ 1,649

See notes to condensed financial information of registrant.

Notes to Condensed Financial Information of Registrant

Note A – Basis of Presentation and Significant Accounting Policies

In Centene Corporation's parent company only financial statements, Centene Corporation's investment in subsidiaries is stated at cost plus equity in undistributed earnings of the subsidiaries. Centene Corporation's share of net income of its unconsolidated subsidiaries is included in income using the equity method of accounting.

Certain amounts presented in the parent company only financial statements are eliminated in the consolidated financial statements of Centene Corporation. The 2007 income tax benefit reflects a $34,856 tax benefit associated with the stock abandonment discussed in Note 3, *Discontinued Operations: University Health Plan and FirstGuard Health Plans* .

Centene Corporation's parent company only financial statements should be read in conjunction with Centene Corporation's audited consolidated financial statements and the notes to consolidated financial statements included in this Form 10-K.

Note B – Dividends

During 2008, 2007 and 2006, the Registrant received dividends from its subsidiaries totaling $48,411, $53,937 and $8,600, respectively.

Item 9. ***Changes in and Disagreements With Accountants on Accounting and Financial Disclosure***

None.

Item 9A. ***Controls and Procedures***

Evaluation of Disclosure Controls and Procedures - Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2008. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of December 31, 2008, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Management's Report on Internal Control Over Financial Reporting - Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in *Internal Control - Integrated Framework* , our management concluded that our internal control over financial reporting was effective at the reasonable assurance level as of December 31, 2008. Our management's assessment of the effectiveness of our internal control over financial reporting as of December 31, 2008 has been audited by KPMG LLP, an independent registered public accounting firm, as stated in their report which is included herein.

Changes in Internal Control Over Financial Reporting - No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the quarter ended December 31, 2008 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

Centene Corporation:

We have audited Centene Corporation's internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) . Centene Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Centene Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ..

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Centene Corporation as of December 31, 2008 and 2007, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2008, and our report dated February 22, 2009 expressed an unqualified opinion on those consolidated financial statements .

(signed) KPMG LLP

St. Louis, Missouri
February 22, 2009